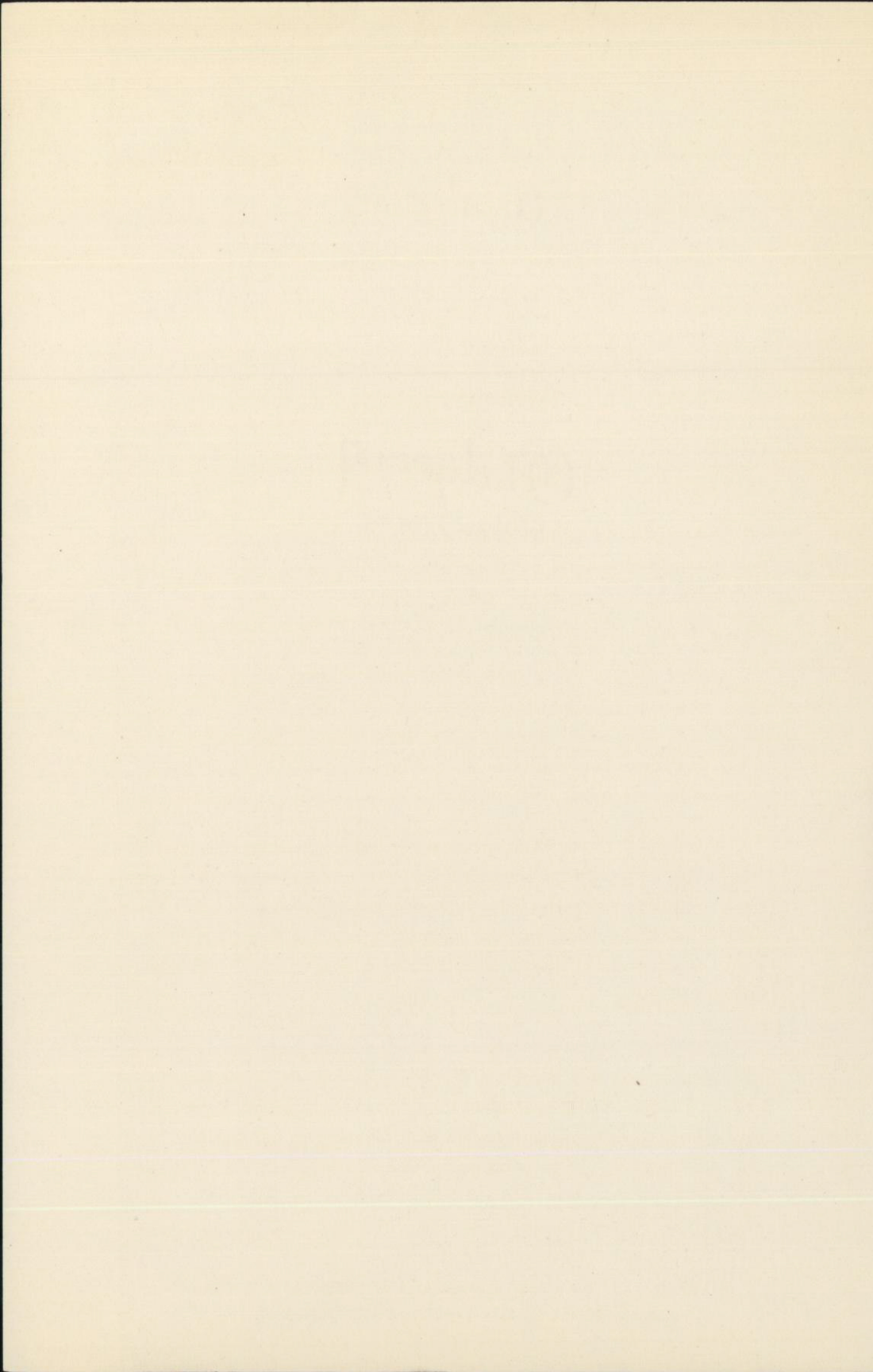


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DRUG STORES

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WALGREEN CO. (An Illinois Corporation) AND SUBSIDIARY COMPANIES
ANNUAL REPORT TO STOCKHOLDERS—SEPTEMBER 30, 1941



Walgreen

DRUG STORES

CHICAGO

November 21, 1941.

TO OUR STOCKHOLDERS:

Accompanying this letter are the Company's financial statements, certified by independent public accountants, for our fiscal year ended September 30th. Earnings were \$2.25 this year, as compared with \$2.10 last year, upon the same number of shares of common stock.

Your Company had a substantial increase in sales over the previous year, with approximately the same rate of gross profit. Rents, advertising and some other expenses were lower in ratio to sales volume, while wage payments and taxes were materially higher. Thus a small increase in net profit, after all charges, was earned for stockholders.

Our cash position while strong is somewhat lower than last year; inventories and accounts receivable are larger. A good share of the latter results from substantially higher Agency Department sales. The higher inventories are in part the effect of a greater volume of business, but to a larger extent due to delays in shipment of goods to our warehouses and stores.

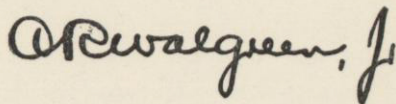
Although we are extremely limited in securing a few commodities, and some others are becoming increasingly difficult to obtain, this group of items is small in relation to our business as a whole. Because of the large variety of merchandise that we carry in our business, we are quite flexible and in a strong position to keep up our activities and volume if shortages of some classes of goods become acute.

In the year covered by this report we opened 20 new stores and closed 22. The total sales of the new stores are currently running much higher than those closed. During the present fiscal year we shall open a few new units and shall continue, so far as possible, to improve some and maintain all units at a high standard of physical efficiency and appearance. We do not believe that any substantial degree of expansion will be feasible, because of the increasing number of construction materials becoming unavailable.

In this connection, you may be interested in the general territorial diversification of your Company's business. The simplest way to indicate this is by a small outline map, as shown on a later page.

Business in general faces many difficult problems at the present time, and will encounter more. I believe, however, that we have a very good spirit throughout our organization, and we have a completely harmonious and widely experienced executive group.

Yours very truly,

A handwritten signature in cursive script, reading "A. Walgreen, Jr.", written in dark ink.

President.

ARTHUR ANDERSEN & CO.

120 SOUTH LASALLE STREET
CHICAGO

To the Board of Directors,
Walgreen Co.:

We have examined the consolidated balance sheet of WALGREEN CO. (an Illinois corporation) AND SUBSIDIARY COMPANIES as of September 30, 1941, and the statements of consolidated profit and loss and surplus accounts for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus accounts present fairly the position of Walgreen Co. and subsidiary companies as at September 30, 1941, and the results of their operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

Chicago, Illinois,
November 14, 1941.

WALGREEN CO. AND SU
CONSOLIDATED BALANCE S

ASSETS

CURRENT ASSETS:

Cash in banks, in transit and on hand.....	\$ 5,470,103.25
United States Treasury tax notes and savings bonds.....	1,012,307.60
Accounts receivable, less reserves.....	1,444,303.29
Inventories of merchandise, priced at the lower of cost or market; based on physical inventories taken continuously throughout the year.....	11,839,938.50
TOTAL CURRENT ASSETS.....	\$19,766,652.64

PREPAID RENT (including advances to lessors), INSUR- ANCE, TAXES, ETC.	1,273,662.04
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INVESTMENTS AND OTHER ASSETS:

Notes and accounts receivable, less reserves.....	\$ 63,580.18	
Investment in and advances to affiliated company	423,000.00	
Investments in and advances to lessor real estate companies	431,765.48	
Stocks and bonds of other companies, at cost.....	282,764.42	
Preferred stock of Walgreen Managers Investment Co., at cost	50,000.00	
Note receivable from Walgreen Managers Investment Co., secured by 50,895 shares of Walgreen Co. common stock held on contract under employees' stock purchase plan	455,375.00	1,706,485.08

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation	Net	
Land	\$ 590,760.80	\$ —	\$ 590,760.80	
Buildings (including buildings on leased land)	2,266,171.25	418,467.02	1,847,704.23	
Equipment	11,367,599.52	4,826,635.28	6,540,964.24	
	\$14,224,531.57	\$5,245,102.30	\$8,979,429.27	
Short life equipment, at cost, less amortization.....			353,067.86	9,332,497.13

GOODWILL, LEASEHOLDS, LEASEHOLD IMPROVEMENTS, ETC., at nominal value.....	1.00
	\$32,079,297.89

BSIDIARY COMPANIES

HEET—SEPTEMBER 30, 1941

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 3,025,440.77
Employees' investment certificates.....	138,200.00
Accrued payrolls, rentals and other expenses.....	686,146.59
Accrued taxes other than Federal income taxes.....	922,241.52
Reserve for Federal income taxes.....	1,575,754.63

TOTAL CURRENT LIABILITIES..... \$ 6,347,783.51

CONTINGENT LIABILITIES:

In connection with pending lawsuits, etc., estimated not to exceed	\$ 200,000
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RESERVE FOR LOSS ON BUILDING ON LEASED LAND..... 260,000.00

CAPITAL STOCK AND SURPLUS:

Preferred stock 4½% cumulative, par value \$100 per share, with warrants attached for the purchase on or before September 15, 1943 of common stock at \$44.00 per share; redeemable on call or in voluntary liquidation at premiums varying from \$6.00 to \$4.00 per share—

Authorized and issued 100,000 shares..... \$10,000,000.00

Common stock without par value—

Authorized 1,955,522 shares (100,000 shares reserved against exercise of warrants attached to 4½% preferred stock)

Issued and outstanding 1,292,485 shares..... 11,484,111.98

Earned surplus (restricted in an amount equal to two years' dividends on 4½% preferred stock and, under the Illinois Business Corporation Act, to the extent of cost of treasury stock).....

4,498,589.87

\$25,982,701.85

Deduct—Preferred stock held in treasury, 5,775 shares, at cost

511,187.47

25,471,514.38

\$32,079,297.89

WALGREEN CO. AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the Year Ended September 30, 1941

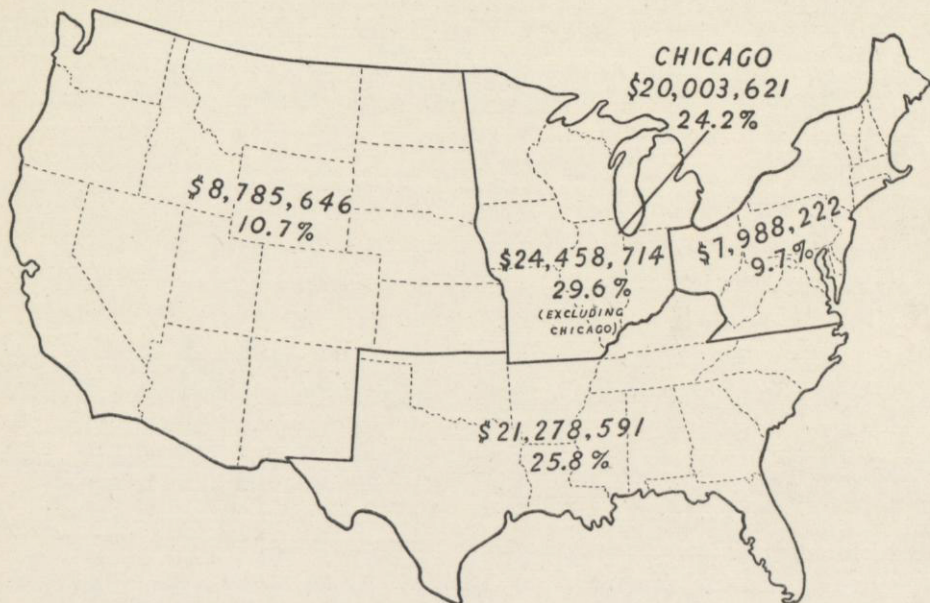
GROSS SALES, less returns and allowances.....		\$83,709,382.62
Less—Provision for sales taxes.....		1,194,588.10
Net sales		<u>\$82,514,794.52</u>
COST OF SALES		52,505,901.55
Gross profit on sales.....		<u>\$30,008,892.97</u>
OTHER OPERATING INCOME.....		246,283.22
Total		<u>\$30,255,176.19</u>
OPERATING EXPENSES:		
Selling, advertising and occupancy.....	\$24,063,282.29	
General and administrative.....	728,179.39	24,791,461.68
Net profit from operations.....		<u>\$ 5,463,714.51</u>
OTHER CHARGES AND INCOME:		
Other charges—		
Improvements to leased properties	\$ 176,579.89	
Provision for loss on building on leased land.....	260,000.00	
Lease cancellation payments and expenses (net).....	13,179.11	
Write-off of intangible assets	58,840.28	
Capital stock, State income and franchise taxes.....	169,249.34	
Provision for contribution to Charles R. Walgreen Memorial Pension Trust for employees.....	108,000.00	
Total	<u>\$ 785,848.62</u>	
Other income—		
Interest and dividends received.....	\$ 99,271.24	
Miscellaneous (net)	112,698.20	
Total	<u>\$ 211,969.44</u>	573,879.18
Net profit before Federal income taxes.....		<u>\$ 4,889,835.33</u>
PROVISION FOR FEDERAL INCOME TAXES:		
Normal and defense taxes.....	\$ 1,355,000.00	
Excess profits taxes	200,000.00	1,555,000.00
Net profit carried to earned surplus.....		<u>\$ 3,334,835.33</u>

NOTE: The provision for depreciation of buildings and equipment for the current year was \$903,794.86, and the amortization of short life equipment was \$389,015.48.

CONSOLIDATED EARNED SURPLUS ACCOUNT

For the Year Ended September 30, 1941

BALANCE, SEPTEMBER 30, 1940.....		\$ 3,655,725.76
NET PROFIT FOR THE YEAR ENDED SEPTEMBER 30, 1941		<u>3,334,835.33</u>
		\$ 6,990,561.09
DIVIDENDS PAID:		
On 4½% preferred stock—\$4.50 per share.....	\$ 423,995.22	
On common stock—\$1.60 per share.....	2,067,976.00	2,491,971.22
BALANCE, SEPTEMBER 30, 1941.....		<u>\$ 4,498,589.87</u>



There are 487 Walgreen stores, strategically located in 211 important cities, in 40 states.

We serve many millions of customers each year.

As a stockholder, you are interested in the progress of your company. Our stores are convenient. They sell a very wide variety of merchandise, including our own preparations, which are of unsurpassed quality. We solicit your increased patronage—on the very practical ground of your own interest, both as a stockholder and as a customer.

OFFICERS AND DIRECTORS

CHARLES R. WALGREEN, JR.....	<i>Director—President</i>
SANFORD J. BOWYER.....	<i>Director—General Auditor</i>
HARRY GOLDSTINE	<i>Director—Vice President</i>
ROBERT G. KNIGHT	<i>Director—Comptroller</i>
ROLAND G. SCHMITT	<i>Director—Vice President—Sec'y</i>
A. L. STARSHAK	<i>Director—Vice President</i>
RAY E. WALKER	<i>Director—of Agency Division</i>
JAMES E. WARD	<i>Director—of Purchases</i>
WILLIAM G. JOHNSTON	<i>Treasurer</i>
BERT O. PINCH	<i>Assistant Secretary</i>

TRANSFER AGENTS

In Chicago	FIRST NATIONAL BANK
In New York	GUARANTY TRUST CO.

REGISTRARS

In Chicago	HARRIS TRUST & SAVINGS BANK
In New York	COMMERCIAL NATIONAL BANK & TRUST CO.

AUDITORS

ARTHUR ANDERSEN & Co., Chicago

